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Department Operations, Oversight, Nutrition and Forestry Subcommittee

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I want to thank you Chairman Gutknecht and other members of this subcommittee for asking me to testify and review the current state of the dairy industry. It's a privilege to testify before a subcommittee led by my representative, Chairman Gutknecht. His hometown of Rochester, Minn., is located near my family dairy.

For more than 80 years, members of the Rowekamp family have lived and milked cows in southeast Minnesota. I began helping my father Everett Rowekamp milk 28 cows in the late 1950s. When Dad retired in the 1980s, we were milking 100 cows. Today, my family is milking 235 cows with plans to build a new 2,500-cow dairy.

It's ironic that I am planning an expansion when milk prices are at a 25-year low. I am bullish, however, on an industry that has long been my family's livelihood and a Midwest stronghold.

The Midwest dairy industry has been struggling to maintain producers and infrastructure. I know firsthand the state is working to reinvent its industry. About 73 percent of Minnesota dairy producers recently surveyed by the Minnesota Department of Agriculture plan to maintain or increase herd size in the coming five years. This is good news after years of falling cow numbers and stagnating production levels.

This industry could turn around with help from agricultural leaders such as each of you. When taking steps to improve the dairy industry, I ask you to focus on the existing dairy price support system and the need to close milk protein trade loopholes.

Allow me to first examine the dairy farm income support program included in the 2002 Farm Bill. Quite frankly, the dairy price support system is not working. The farm bill calls for USDA to maintain a safety net of $9.90 per hundredweight. That has not happened. Class III prices have fallen below that level for eight of the last 10 months.

To maintain the price support system, dairy manufacturers sell surplus dairy products to the Commodity Credit Corporation at prices determined by the USDA. These prices should reflect the support price called for in the farm bill.

That system, however, has not been effective. For several weeks, commercial markets remained 5 cents per pound under CCC prices, indicating USDA-calculated product prices are too low.

To make the farm bill effective, I recommend two improvements. The first is asking the USDA to increase its purchase price for cheese, butter and nonfat dry milk to reflect the additional costs manufacturers face when selling products to the CCC.

The second improvement would be for the CCC to become an active trader on the Chicago Mercantile Exchange. The CCC could purchase products on the CME whenever the prices dip below the established CCC purchase prices. USDA could actively ensure the price levels called for in the farm bill.

In addition to price supports, the farm bill provides an additional safety net through the M-I-L-C payment. Without M-I-L-C payments, the rate of dairy farmer loss would be much higher. Though my farm's production has surpassed the annual M-I-L-C payment limit, I appreciate the positive effect it has had on fellow producers, our communities and the dairy infrastructure.

If USDA improves price supports as I have outlined, Minnesota dairy producers could be less dependent on M-I-L-C payments. Proper administration of the support program, however, would lower the M-I-L-C payments and generate more money from the market. That would be a win-win for dairy producers and taxpayers.

Let me also draw to your attention another win-win for dairy producers and their communities. In addition to milk, dairy farms could be generating electricity with anaerobic digesters that produce methane. This renewable fuel source powers generators. The energy bill should contain tax credits to encourage the production of this alternative energy source.

Finally, I ask each of you to renew your commitment to impose tariff-rate quotas on imported dairy proteins such as milk protein concentrate and casein.

Clearly, imports of milk protein concentrate are not the sole cause of the low dairy prices. They do, however, displace domestically produced nonfat dry milk that is purchased by USDA under the dairy price support program. This purchase then leads to a buildup of surplus dairy proteins.

When reviewing the 300 percent surge in dairy protein imports since the mid 1990s, it's clear to see how the import loophole has affected dairy producers in the past. But in many ways, the milk protein tariff legislation is about the future.

The MPC bill does not seek to stop all MPC imports. Rather, it brings consistency to the dairy tariff schedule so loopholes don't allow import surges that prevent our domestic dairy industry from recovering.

If milk markets recover, the U.S. dairy industry will grow even more vulnerable to MPC imports. Some U.S. manufacturers want to purchase cheap MPC from the world market before supporting their own domestic industry.

Chairman Gutknecht, effectively administering the existing dairy price support system, maintaining the M-I-L-C payments and imposing tariff-rate quotas on imported dairy proteins would move this industry forward. It would help the Rowekamp family continue to be southeast Minnesota dairy producers.